

SENATE FILE 111  
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Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to corporate, franchise, and insurance premiums  
2 tax credits for entities investing in a qualified venture  
3 capital company and providing retroactive applicability date  
4 provisions.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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S.F. 111

1 Section 1. NEW SECTION. 15E.175 DEFINITIONS.

2 As used in this section and sections 15E.176 and 15E.177:

3 1. "Iowa business" means a business or industry,  
4 incorporated or unincorporated, which meets all the following  
5 criteria:

6 a. Has or will have, within thirty days after a loan or  
7 investment is made by a qualified venture capital company, at  
8 least fifty percent of its employees or assets located in  
9 Iowa.

10 b. Needs financial assistance in order to commence or  
11 expand such business or industry which provides or intends to  
12 provide goods or services.

13 2. "Qualified venture capital company" means a  
14 corporation, limited liability company, or a general or  
15 limited partnership with its principal place of business  
16 located within this state, which meets all of the following  
17 requirements:

18 a. Has an initial capitalization of not less than twenty  
19 million dollars.

20 b. Is organized by the Iowa business investment  
21 corporation, organized under division XV of this chapter, to  
22 directly or indirectly through its subsidiaries or affiliates  
23 invest in debt and equity securities of Iowa businesses and  
24 provide financial assistance for housing initiatives in rural  
25 areas or in cities having a demonstrated need for affordable  
26 housing.

27 c. Maintains a small business investment company that is  
28 incorporated in Iowa and maintains its principal place of  
29 business in this state the purpose of which includes  
30 increasing the availability of funds for investment in and  
31 loans to Iowa businesses or housing initiatives.

32 d. Will provide or arrange for managerial and other  
33 advice, assistance, and support for Iowa businesses and  
34 housing initiatives.

35 3. "Taxpayer" means an entity subject to tax under chapter

1 422, division III, chapter 422, division V, or chapter 432.

2 4. "Tax year" means for entities subject to the state  
3 corporate income tax or the state franchise tax under chapter  
4 422, division III or V, respectively, the tax year as defined  
5 for those divisions or means for insurance companies subject  
6 to the gross premiums tax under chapter 432, the calendar year  
7 for which the premiums are taxed.

8 Sec. 2. NEW SECTION. 15E.176 TAX CREDITS.

9 1. For tax years beginning on or after January 1, 1995,  
10 there is allowed a credit against that tax imposed under the  
11 corporate income tax in chapter 422, division III, the  
12 franchise tax in chapter 422, division V, or the gross  
13 premiums tax in chapter 432, for investments made by the  
14 taxpayer in a qualified venture capital company whose purpose  
15 includes establishing or expanding Iowa business and  
16 affordable housing within the state.

17 2. The amount of credit allowed under subsection 1,  
18 subject to subsection 4, is computed as follows:

19 a. The amount of the qualified venture capital company's  
20 investment in Iowa companies is divided by the amount of new  
21 cash invested in the qualified venture capital company.

22 b. The resulting percentage, which shall not exceed one  
23 hundred percent, is multiplied by the amount of the taxpayer's  
24 investment in the qualified venture capital company.

25 c. The amount of the credit is equal to ten percent of the  
26 product determined in paragraph "b".

27 d. The qualified venture capital company shall compute as  
28 of the end of the taxpayer's tax year the amounts under  
29 paragraph "c" for each tax year the taxpayer is entitled to  
30 the credit.

31 3. The taxpayer is allowed the credit as computed each  
32 year in subsection 2 for up to ten consecutive years beginning  
33 with the first year for which the credit is taken.

34 If the amount of the credit exceeds the taxpayer's tax  
35 liability for the tax year, the excess may be credited to the

1 tax liability for the following five tax years or until  
2 depleted, whichever is the earlier, and is in addition to any  
3 other credit allowed under this section.

4 4. Notwithstanding the amount of credit computed in  
5 subsection 2, the total amount of credits for all taxpayers  
6 that shall be allowed under subsection 1 for any fiscal year  
7 of the qualified venture capital company shall not exceed two  
8 million five hundred thousand dollars and for all fiscal years  
9 of the qualified venture capital company shall not exceed  
10 twenty-five million dollars. In determining if the credit  
11 allowed has exceeded the fiscal year limit, credits carried  
12 over from a previous tax year are not counted.

13 5. The credit provided for in subsection 2, to the extent  
14 not previously utilized, shall be freely transferable to and  
15 by subsequent transferees for a period of ten years from the  
16 date the credit is first available to the taxpayer.

17 Sec. 3. NEW SECTION. 15E.177 COORDINATION OF RESOURCES.

18 If a qualified venture capital company is organized by the  
19 Iowa business investment corporation on or before December 31,  
20 1996, within ninety days following its organization, the  
21 qualified venture capital company shall develop and submit a  
22 written proposal to the shareholders of each business  
23 development finance corporation organized pursuant to division  
24 XIII of this chapter, calling for the investment of all the  
25 assets of each business development finance corporation in  
26 securities of the qualified venture capital company. A notice  
27 of a special meeting of the shareholders of the business  
28 development finance corporation and the written proposal made  
29 to the business development finance corporation by the  
30 qualified venture capital company shall be delivered to the  
31 shareholders of each business development finance corporation  
32 entitled to vote at the special shareholders meeting not less  
33 than ten nor more than sixty days before the meeting date  
34 given by the qualified venture capital company. Action on the  
35 written proposal by the board of directors of the business

1 development finance corporation or any other person shall not  
2 be required to call the special meeting or authorize voting on  
3 the written proposal by the shareholders of the business  
4 development finance corporation. If at the special meeting of  
5 shareholders of the business development finance corporation  
6 or any recesses thereof, a majority of the shareholders  
7 present or represented at the special meeting approve the  
8 investment proposed by the qualified venture capital company,  
9 the business development finance corporation shall immediately  
10 make such an investment of all of its assets. The investment  
11 by a business development finance corporation of all of its  
12 assets in the qualified venture capital corporation shall not  
13 be considered a sale of assets other than in the usual and  
14 regular course of business and division XIII of the Iowa  
15 business development finance Act shall not apply to the  
16 transaction.

17 Sec. 4. Section 422.33, Code 1995, is amended by adding  
18 the following new subsection:

19 NEW SUBSECTION. 9. There is allowed as a credit against  
20 the tax determined in subsection 1 for a tax year an amount  
21 equal to the qualified venture capital credit as provided in  
22 section 15E.176. Notwithstanding any other provision, the  
23 credit allowed for in this subsection shall be applied prior  
24 to all other credits allowed the taxpayer. The taxpayer shall  
25 not receive for the same investment a credit under subsection  
26 8 and this subsection.

27 Sec. 5. Section 422.60, Code 1995, is amended by adding  
28 the following new subsection:

29 NEW SUBSECTION. 4. There is allowed as a credit against  
30 the tax determined in this division for a tax year an amount  
31 equal to the qualified venture capital credit as provided in  
32 section 15E.176. Notwithstanding any other provision, the  
33 credit allowed for in this subsection shall be applied prior  
34 to all other credits allowed the taxpayer. The allocation of  
35 revenues to a city or county under section 422.65 shall be

1 determined as if the credit under this subsection had not been  
2 taken.

3 Sec. 6. Section 432.1, Code 1995, is amended by adding the  
4 following new subsection:

5 NEW SUBSECTION. 5. There is allowed as a credit against  
6 the tax determined in subsection 1 or 2 for a tax year an  
7 amount equal to the qualified venture capital credit as  
8 provided in section 15E.176. Notwithstanding any other  
9 provision, the credit allowed for in this subsection shall be  
10 applied prior to all other credits allowed the taxpayer.

11 Sec. 7. 1992 Iowa Acts, chapter 1244, section 1,  
12 subsection 2, paragraph e, unnumbered paragraph 1, as amended  
13 by 1993 Iowa Acts, chapter 180, section 46, as amended by 1994  
14 Iowa Acts, chapter 1201, section 29, is amended to read as  
15 follows:

16 For transfer to the treasurer of state for the purpose of  
17 facilitating the organization and private capitalization of  
18 the small business investment company or other entity under  
19 sections 15E.169 through 15E.171. If the small business  
20 investment company or another entity for which the funds are  
21 to be used is not organized ~~within-thirty-six-months-of-the~~  
22 ~~effective-date-of-this-Act~~, unused funds shall revert to the  
23 general fund of the state, however, if such an entity is  
24 organized, the unused funds shall be transferred irrevocably  
25 to the qualified venture capital company or other entity for  
26 which the funds are to be used:

27 ..... \$ 200,000

28 Sec. 8. This Act applies retroactively to January 1, 1995,  
29 for tax years of entities subject to the state corporate  
30 income tax or franchise tax which begin on or after that date.  
31 This Act applies retroactively to January 1, 1995, for  
32 calendar years beginning on or after that date for entities  
33 subject to the gross premiums tax under chapter 432.

34 EXPLANATION

35 This bill allows a corporation, financial institution, or

1 insurance company to take a corporate, franchise, or insurance  
2 premiums tax credit for its investment in a qualified venture  
3 capital company. The qualified venture capital company is an  
4 entity formed by the existing Iowa business investment  
5 corporation with an initial capitalization of at least \$20  
6 million. The purpose of the qualified venture capital company  
7 is to invest primarily in debt and equity securities of Iowa  
8 businesses and housing initiatives. The total amount of the  
9 tax credit for all taxpayers is computed each year based on  
10 the total amount invested in Iowa businesses by the qualified  
11 venture capital company as of the end of its fiscal year. The  
12 amount of the annual tax credit for a single taxpayer is equal  
13 to up to 10 percent of the taxpayer's investment in the  
14 qualified venture capital company multiplied by the percentage  
15 the investments in Iowa businesses represent of the total new  
16 cash invested in the qualified venture capital company. The  
17 tax credit is allowed for 10 consecutive years following the  
18 first year the tax credit is taken by the taxpayer. The bill  
19 limits to \$2.5 million the total amount of tax credits that  
20 can be taken by all taxpayers in any fiscal year of the  
21 qualified venture capital company. The bill also limits to  
22 \$25 million the total amount of tax credits that can be taken  
23 by all taxpayers in all fiscal years of the qualified venture  
24 capital company. The bill applies retroactively to tax years  
25 beginning on or after January 1, 1995.

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